

Message Text

CONFIDENTIAL

PAGE 01 STATE 205869 TOSEC 100285

60

ORIGIN INR-07

INFO OCT-01 ISO-00 SS-15 NSC-05 SSO-00 NSCE-00 CCO-00

INRE-00 /028 R

DRAFTED BY INR/RES:CHUME/FHCAPPS/JHOSTIE

APPROVED BY INR:WGHYLAND

INR/DDR:MPACKMAN

C:HSOHNENFELDT

S/S -O: L. MATTESON

----- 129238

O 290021Z AUG 75 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 205869 TOSEC 100285

E.O.11652: GDS

TAGS: FR, GW, ECON

SUBJECT: FRENCH AND FRG PROGRAMS TO REFLATE ECONOMIES

AT REQUEST OF THE COUNSELOR, WE ARE SENDING YOU FOLLOWING
PRELIMINARY INR ANALYSIS OF FRENCH AND WEST GERMAN REFLATION
PROGRAMS REPORTED IN US PRESS, AUGUST 28.

1. BACKGROUND: FACED WITH RISING UNEMPLOYMENT AND LAGGING
LEVELS OF PRODUCTION SINCE THE BEGINNING OF THE YEAR, THE
FRENCH AND WEST GERMAN GOVERNMENTS HAVE BEEN CONSULTING
WITH EACH OTHER SINCE THE SPRING ON PLANS TO REFLATE THEIR
ECONOMIES. ON AUGUST 24 THE EC FINANCE MINISTERS ISSUED A
STATEMENT IN VENICE CALLING FOR COORDINATED ACTION BY THE
NINE TO REFLATE THEIR ECONOMIES. ITALY HAD EARLIER PRESENTED
TO PARLIAMENT A \$5.4 BILLION ANTI-RECESSION PACKAGE IN-
CLUDING MEASURES FOR EXPORT CREDITS, PUBLIC WORKS CONSTRUC-
TION, SHIPBUILDING, AND AID TO SMALL INDUSTRIES AND
AGRICULTURE.

2. THE PROGRAMS: THE DETAILS OF THE FRENCH PROGRAM,
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 205869 TOSEC 100285

ESTIMATED TO TOTAL \$5.5 BILLION, WILL BE PRESENTED TO

PARLIAMENT WHEN IT RECONVENES ON SEPTEMBER 4. APPARENTLY

THE BULK OF THE FUNDS WILL BE SPENT FOR PUBLIC WORKS AND IMPROVEMENT OF THE INDUSTRIAL INFRASTRUCTURE.

3. THE WEST GERMAN PROGRAM, ESTIMATED TO TOTAL \$2.3 BILLION, IS DIRECTED PRIMARILY AT THE DOMESTIC CONSTRUCTION INDUSTRY. THE JUST-ANNOUNCED PROGRAM FOLLOWS A \$5.6 BILLION TAX CUT AND A \$0.7 BILLION INVESTMENT PROGRAM CARRIED OUT AT THE END OF LAST YEAR.

4. MOTIVATION: BOTH THE FRENCH AND WEST GERMAN GOVERNMENTS HAVE BEEN UNDER PRESSURES FROM THEIR EC PARTNERS TO LEAD THE WAY OUT OF THE ECONOMIC SLUMP IN EUROPE BY REFLATING THEIR ECONOMIES.

5. IN FRANCE, WHILE EXPORTS HAVE BEEN GRADUALLY INCREASING (THOUGH FAILING TO KEEP PACE WITH THAT OF IMPORTS) SINCE LATE LAST YEAR, INDUSTRIAL PRODUCTION HAS FALLEN BY ABOUT 5 PERCENT AND UNEMPLOYMENT HAS RISEN TO 5.6 PERCENT (IN TERMS COMPARABLE TO US FIGURES). WITH 600,000 YOUNG PEOPLE EXPECTED TO ENTER THE JOB MARKET THIS FALL, UNEMPLOYMENT COULD RISE ANOTHER 2 PERCENT BY EARLY 1976 AND SWELL THE RANKS OF LEFTIST OPPOSITION PARTIES. WITH THE LEVEL OF INFLATION NOW REDUCED TO 10 PERCENT FROM 17 PERCENT A YEAR EARLIER, AND WITH WHOLESALE PRICES DROPPING, GISCARD HAS SHIFTED THE EMPHASIS FROM FIGHTING INFLATION TO CONTROLLING UNEMPLOYMENT, NO DOUBT TO LESSEN THE ABILITY OF HIS OPPOSITION ON THE LEFT TO TAKE ADVANTAGE OF HIGH AND STILL RISING UNEMPLOYMENT.

6. IN GERMANY INDUSTRIAL PRODUCTION HAS HELD STEADY FOR THE PAST SIX MONTHS WHILE, AFTER AN EARLIER DROP, INDUSTRIAL EXPORTS HAVE BEEN ERRATIC. BUT, AS IN FRANCE, UNEMPLOYMENT HAS RISEN DRAMATICALLY SINCE THE BEGINNING OF THE YEAR AND IS NOW AT 4.6 PERCENT (IN TERMS COMPARABLE TO US FIGURES). ANOTHER 3 PERCENT OF THE LABOR FORCE IS ON SHORT WORKING HOURS.

7. THE SIZE OF THE GERMAN PROGRAM WAS LIMITED BY
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 205869 TOSEC 100285

CONSERVATIVE PARTY AND PUBLIC PRESSURES AGAINST INCREASING THE SIZE OF THE GOVERNMENT DEFICIT, WHICH IS ALREADY AT \$15 BILLION OUT OF A GOVERNMENT BUDGET OF \$66 BILLION. EVEN WITHOUT THE ANNOUNCED PROGRAM, THE DEFICIT WILL INCREASE BECAUSE OF PAYMENTS TO GERMANY'S GROWING NUMBER OF UNEMPLOYED. AT THE SAME TIME, THE GOVERNMENT IS TRYING TO PRUNE ITS OWN EXPENSES BY AUSTERITY MEASURES DESIGNED TO LESSEN THE DEFICIT OR TO

FREE FUNDS FOR INVESTMENT.

8. SIGNIFICANCE: THE SIZE OF THE PROGRAMS ANNOUNCED AND THE AMOUNT OF GOVERNMENT DEFICITS COMPARE FAVORABLY WITH THE FISCAL STIMULUS SUPPLIED BY THE US BUDGET DEFICIT. THE MAJOR DIFFERENCE IS NOT IN THE SIZE OF THE ACTION RELATIVE TO THE TOTAL SIZE OF THE ECONOMY. RATHER, IT LIES IN THE FACT THAT THE FRENCH AND GERMAN PROGRAMS ARE MOSTLY FOR GOVERNMENT-DIRECTED AND CONTROLLED INVESTMENTS IN THE CAPITAL GOODS SECTOR WHILE THE US TAX CUT AND THE BUDGET DEFICIT CAUSED BY INCREASED SOCIAL SECURITY AND UNEMPLOYMENT BENEFITS RESULTED IN MORE MONEY BEING TRANSFERRED DIRECTLY TO CONSUMERS FOR THEIR USE. IN ALL THREE COUNTRIES MUCH OF THE GOVERNMENT DEFICIT IS CAUSED BY FALLING TAX RECEIPTS IN REAL TERMS BECAUSE OF FLAGGING ECONOMIES.

9. THE SIZE OF THE PROGRAM ANNOUNCED IS NOT ENOUGH TO PULL FRANCE, GERMANY, AND THEIR EC PARTNERS OUT OF THE ECONOMIC DOLDRUMS.

--THE PROGRAMS ARE DESIGNED TO STIMULATE THOSE SECTORS LESS DEPENDENT ON WORLD TRADE AND TRADITIONALLY LABOR INTENSIVE (I.E., PUBLIC WORKS).

--BECAUSE MUCH OF THE SPENDING IS FOR GOVERNMENT-DIRECTED INVESTMENT, THERE IS BOUND TO BE A TIME LAG BETWEEN PARLIAMENTARY APPROVAL OF THE PROJECTS AND DISBURSAL OF FUNDS.

--BOTH COUNTRIES CONTINUE TO BE LIMITED IN THE ACTIONS THAT THEY TAKE: FRANCE BECAUSE OF ITS DECISION TO REJOIN THE MONETARY SNAKE MUST GUARD AGAINST A SHARP RISE IN CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 205869 TOSEC 100285

INFLATION AND PROTECT ITS BALANCE OF PAYMENTS. THE FRG IS CONSTRAINED BY AN OPPOSITION ALREADY ATTACKING THE SCHMIDT COALITION FOR THE SIZE OF THE GOVERNMENT DEFICIT. INGERSOLL

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE205869
Document Source: CORE
Document Unique ID: 00
Drafter: CHUME/FHCAPPS/JHOSTIE
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750298-0977
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975084/aaaaadjju.tel
Line Count: 158
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN INR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 06 OCT 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <06 OCT 2003 by ellisoob>; APPROVED <27 OCT 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRENCH AND FRG PROGRAMS TO REFLATE ECONOMIES AT REQUEST OF THE COUNSELOR, WE ARE SENDING YOU FOLLOWING
TAGS: ECON, FR, GE
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006